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Railway Prospects in the South

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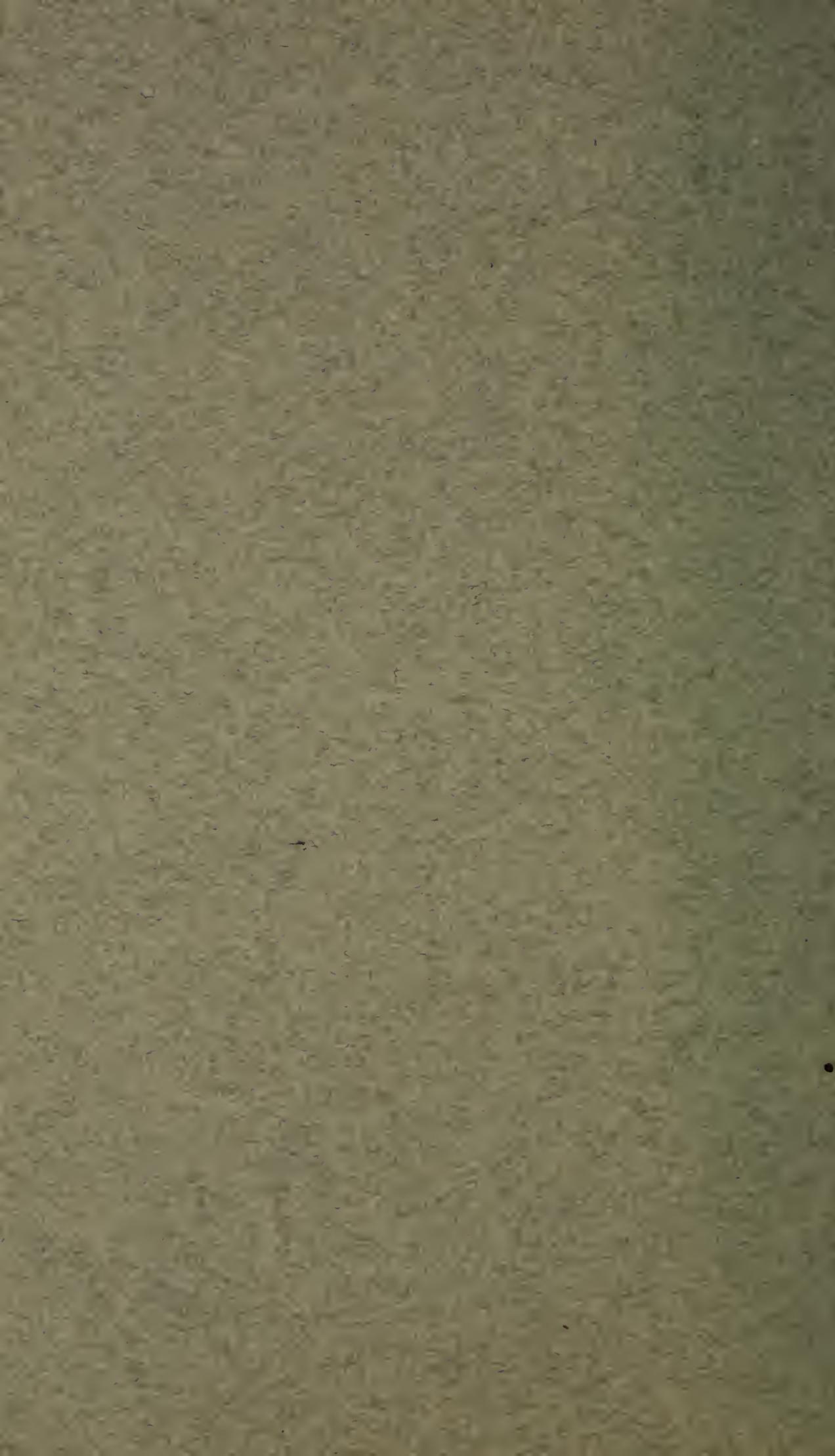
**RAILWAY PROSPECTS in the SOUTH**

**ADDRESS OF  
MR. L. E. JOHNSON**

**PRESIDENT  
NORFOLK & WESTERN  
RAILWAY COMPANY**

**BEFORE  
COMMERCE SECTION OF THE  
SOUTHERN COMMERCIAL CONGRESS**

**ATLANTA, GEORGIA  
MARCH 10, 1911**



*Address of Mr. L. E. Johnson,  
President Norfolk & Western  
Railway Company*

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*Mr. Chairman, Ladies', and Gentlemen:*

It is not unnatural, when we speak of "Railway Prospects in the South," that our minds should hark back to the beginnings of railway development and ascertain if the lessons of the past may not give us something upon which we may predicate the future. For the purpose of studying railway accomplishment and railway progress and prospects, I know of no environment more suited to the purpose than within the borders of this great capital of the "Empire State" of the South, reared as it has been by southern men who typify the very best in American industry and culture. Atlanta itself sets at naught all the traditions of the more remote past and brings to our minds the knowledge that the introduction and development of railroads has meant the establishment of a new industrial force in the progress of this country and has demonstrated that great industrial centers may exist and thrive away from locations which were formerly considered necessary to substantial commercial progress.

If any one, during the first half of the last century, had been called upon to predict what would be the location of Georgia's greatest city during the years which should mark the opening of the present century, he would hardly have selected the location which marks the gathering place at this moment of this great commercial congress.

Men who had studied the past and gathered together the experience of former ages would have sought at the water's edge the location of Georgia's future commercial

and industrial center. Probably at some ample harbor upon the seacoast, or at least upon the banks of some navigable stream. No one in that day and generation would have had the temerity to predict that, far removed from water transportation, there should be builded up this great metropolis of industrial traffic, whose influence would pervade the entire South, and rival its greatest seaports. That Atlanta exists as a dominating factor in the commerce of the South, indicates that some new principle has become a part of our economic development.

Before undertaking to say a word or two in regard to the present "Railway Prospects," which is the subject which has been assigned to me, it will doubtless be profitable to reflect a moment on the manner in which the railway construction was begun in the South and throughout our country generally. It was in the South that the operation of railroads with steam as the sole motive power was first undertaken, and this action adopted by the Charleston & Hamburg Railroad Company on January 14th, 1830, marks an epoch in the transportation development of this country. It was this year that the railroad company just mentioned, in pursuance of the conclusions reached by its board of directors, issued an order for the construction of a locomotive which had been designed by a citizen of Charleston and which was built at the West Point Foundry in the State of New York. The name borne by this locomotive, the first used in regular service, was "The Best Friend of Charleston," and it is needless to say that the name so adopted was a fitting title for the instrument of commerce then put into use and which has become so large a factor in the civilization of our country.

The construction of railroads in the early history of the South possessed but few attractions to those who had money to invest in business enterprises. The experiment was considered doubtful and the undertaking highly speculative; and, although the necessity and advantage of more adequate transportation facilities were recognized, and appreciated as being important in the development of the country, yet so indifferent was private capital to venture upon an undertaking both costly and uncertain, that very few of the roads of the South in its early history were constructed purely through individual contribution. As a matter of fact, the promotion and construction of most of the earlier built roads was the result of the coöperation of the State with individuals, to which was generally added the aid of communities and cities whose interest it was thought would be particularly advanced by such construction. In other words, government ownership of railroads is, for practical purposes, not a new thing in this country, but, as a matter of fact, it is an experiment which has already been tried and while, during its existence, much was accomplished which under other auspices would have been difficult, yet the theory has long since been abandoned, as unsuited to the conditions existing in our country, and not in harmony with our form of government.

However valuable and necessary the aid of the State was in the beginning of railroad construction in this country, it soon became apparent that railroad operation under the influence and control of governmental authority was unsatisfactory and unremunerative. The states soon ascertained that the properties they were undertaking to operate were generally conducted at an annual deficit, and even if profitable the State

was put in the embarrassing position of operating properties for the peculiar benefit of one portion of its people and one of its sections at the expense of the other sections, and the conclusion was forced upon the people that it was no part of the function of the government to make money out of its own citizens or to benefit one at the cost of another. Many causes coöperated to bring about the final abandonment by the states of their control and interest in their railroads, but chiefly was this policy of abandonment due to the conviction on the part of the people that the operation of railroads, involving the employment of vast numbers of men and the inauguration of competition between sections and cities equally entitled to protection and consideration from the State, made it impossible for the State wisely and efficiently to carry on these complicated and hazardous undertakings.

While these policies were being inaugurated and tried out in the various states and communities of the South, the Civil War came on, the result of which was the annihilation of much of the work which had been done in railroad construction and, for many years thereafter, every energy of the people of the South was devoted to the reconstruction, consolidation and operation of these avenues of commerce. The states did not undertake to rehabilitate the roads, but usually turned them over to companies financed by individuals and, for all practical purposes, we may say that the growth of railways in the South since the year 1865 has been the result of individual enterprise and corporate energy.

Before we can say what is the "Railway Prospect" in the South I take it that it is necessary to see what has been accomplished during these years in which the companies have been working out their part of the problems

of development, for I take it that if the railroads of the South have been laggards in the race of progress, or have so conducted their affairs that there is in the minds of the people a lack of confidence in their integrity, then they have failed to do their part in the upbuilding of the country, and have been lacking in patriotic sacrifice for the common benefit when sacrifice has been necessary. If these are facts, then in my judgment the prospect for the future cannot be encouraging.

The roads have had a fair opportunity to do the work that has been committed to them, and if they have failed to live up to the responsibilities imposed, and the duties assumed, then I take it they may reasonably expect the same reward that was accorded in the Scripture to the unfaithful servant: "And there shall be taken from him even that which he hath."

As one who has devoted a lifetime to the construction and operation of railroads in this country, and whose maturer years have been spent in earnest work in the development of railroad transportation in the South; and who, as the result of these later years of work, has become reasonably well acquainted with the problems that have heretofore been met and handled by those who have had to meet the transportation problems of the South, I wish to bear emphatic and earnest testimony that no just or intelligent criticism can be properly made against the manner in which your people have handled a problem which has been surrounded with most appalling difficulties. Indeed, the progress that has been made during these years in railroad development cannot fail to excite the wonder and admiration of those who are familiar enough with the situation to realize the difficulties which have been overcome. Those railroads which existed at the close of the war

represented, as many of you well know, but little else than a franchise and a right of way, and the work of the years that had gone before had been to a large extent annihilated as the result of four years of enforced neglect, and I defy any one to name another kind of property that deteriorates as rapidly as a railroad, resulting from lack of repair. Eternal vigilance, and no small amount of money, is the price that must be paid for the maintenance and continued existence of a railroad, yet these roads have been reconstructed and new lines have been built to an extent that has been marvelous, considering the difficulties that had to be overcome. Although a vast amount of mileage is yet to be constructed in order that the transportation facilities of the South shall be equal to many other sections of our country, still the work that has been accomplished makes the problems of this generation easier and the way is open, if other conditions shall be favorable, for this great work to go forward to its complete development.

Statistics of railroad accomplishment are not easily available, except during the past twenty years. If we had the statistics of the work done during the quarter of a century succeeding the closing of the war, the percentages of comparison, year by year, would be extremely interesting and would in every instance, I believe, show an amount of progress, even under the depressing conditions that existed during much of that time, that would reflect tremendous credit upon those who were fighting the industrial battles of that day.

I invite your attention, however, to a few simple statistics of the past twenty years, believing that they ought to be sufficient to satisfy the most critical, that the railroads of the South have not been negligent of

the responsibilities resting upon them, but, in truth and in fact, have been diligent in providing facilities for the development of the common interests. The result of the activity and energy of your people who undertook to rehabilitate the railroads of the South, showed as the result of their achievement up to the year 1890, the existence of 24,535 miles of single track, 30 miles of second track, and 3,265 miles of yard track and sidings, in the section south of the Potomac and Ohio Rivers, and east of the Mississippi. After that year, the development was not so marked in the extension of new lines of road, although the construction of such new lines was very substantial, but was shown in the construction of facilities for the handling of the business which the earlier railroad construction had made possible. In 1909, the amount of single track had increased to 41,273 miles, second track to 1,656 miles, and yard track and sidings had increased to 11,247 miles. These figures would seem to indicate that the railroads of the South have been keeping pace with the industrial development and providing facilities to meet its needs. The increase of rolling stock in both quality and quantity during this period was as marked as the improvement and increase in roadbed and new track. In 1890, the reports of the Interstate Commerce Commission show that there were in this section 3,310 locomotives, and 109,669 cars, while in 1909, the number of locomotives had increased to 7,772, and the cars to 308,807. During this period, there was a distinct tendency—especially during the later years—towards the enlargement of locomotives and cars, and hence the numerical figures given above only represent in part the growth of your railroads in their rolling stock intended for the use of the public in these com-

munities. This increase in the various elements which go to make up the efficiency of the railroads of the South has been largely in excess of the increase in population during the time mentioned, for while, from 1890 to 1909, the single track mileage had increased 68.22 per cent. and second track 54.23 per cent., yard track and sidings 244.47 per cent., locomotives 134.80 per cent., and cars 181.58 per cent., the population of the territory served by the railroads increased from 1890 to 1910, from 13,845,801 to 18,776,059, or 35.61 per cent.

Again let us look for a moment at the capitalization and investment in railroad property in the South during the same period, and the figures on this line show the same progressive development. In 1890, the capitalization of the railroads in the territory above mentioned, which capitalization includes the outstanding stock and funded debt of those roads, was \$1,153,374,-401.00. This capitalization in 1909, had increased to \$2,265,101,150.00. I have no means at hand for ascertaining how much of this capitalization has been contributed by the people of the South, but I think that it is safe to say that a very small portion has been secured from that source and I take it that, from that reason, much credit is due to the people—mostly your own citizens—who have had the character and ability, so to impress themselves upon the investing public of the world whereby such large sums of money have been entrusted to their care and placed at the service of your communities, to be primarily benefited by the construction and upbuilding of these railroads. This money has been secured, and expended for the benefit of this territory, although the return thereon has, in most cases, been very meager, and the average return much less than reasonable. Interest on bonds and

dividends on stock which have been received on account of railroad investments in the South from 1891 to 1909, both inclusive, represent a rate of interest upon this capitalization ranging from 2.54 per cent. to 3.60 per cent.

I am quite well aware that, whenever the singularly slight return upon railroad investments in the South is commented upon, the answer of those who are critical of railroads usually is that the return upon the capitalization does not represent usually the rate that is paid upon the investment, and this on account of the fact that the general charge is made that the stock is watered, and that if the moisture were eliminated from the capitalization the net returns would be much larger.

I do not pretend to know the financial history of all of the railroads of the South, but I do know the history and conditions surrounding quite a number of such roads; and, as far as these are concerned, and I verily believe as far as the roads of the South generally are concerned, there is but little foundation in this general and wholesale charge of the existence of what is known as watered stock in the capitalization of its railroads generally. An examination of the financial history of each of the roads would, in my judgment, develop the fact that each issue of stock represented originally an investment of actual money which went towards the purchase or construction of the property; and that, in the re-organization of such properties, which re-organization became necessary in the history of practically every road in the South, recognition has been made by the new company, in the issuing of its securities, of the stock and other securities of the old company, which stock and other securities represented actual investments of money.

No small portion of the stock of existing companies, which is now frequently being criticized as "watered stock," represents, as a matter of fact, stock issued to the original owners of the road, which was turned over after the war to some new company being organized for the purpose of constructing and maintaining a through line of travel, and represented only a small portion of an actual investment in money. This stock, in fact, represented, in many cases, the fortunes of not a few courageous men who invested their all in the railways of the South, and because an effort has been made to preserve this investment to the original owners or to their successors in title, the opportunity is frequently sought in these days to criticize stock issued for such purposes as being unentitled to recognition as an investment. I cannot agree with this theory, but have always felt that the money which was originally contributed is a part of the investment, the benefit of which is now enjoyed by the public and which in good conscience should be preserved to those entitled to it.

Again, if we look upon the present capitalization of the railroads of the South, even upon the basis of their physical valuation, I am persuaded that this capitalization is in reasonable accord with what would be the aggregate value of the properties based upon a fair appraisement of their physical value, whether such appraisement were based upon the cost of original construction or the present cost of reproduction. Of course, it is a fact that a physical valuation of these roads has never been made and probably never will be made, but yet a comparison of the present capitalized valuation with the physical valuation of other roads not very dissimilar ought to be of value as an aid to intelligent public thought and judgment on a

question of this kind. The number of miles of railway reported as owned in the Southern States east of the Mississippi is 43,258 miles, including both single and double track, and this divided into the sum at which these roads now stand capitalized, as represented by their outstanding securities, shows an average per mile of \$52,362.00, a valuation which, on its face, does not appear to any one familiar with railroad conditions to be extravagant.

These figures, however, include the railroad securities held by railway companies and are, therefore, larger than the stock and bonds in the hands of the public, which, for purposes of conservative comparison, we will consider as the net capitalization. The Interstate Commerce Commission does not give the amount of stocks of southern railways held by the railways. The best means of approximating the amount of these stocks is to base our calculation upon the percentage of all railroad securities owned by southern railroads. The latest year for which this information is given covering the section now being considered, is the year 1906. In that year the railway stocks and bonds owned by southern railways were 14.23 per cent. of the total capitalization. Deducting this amount from the total capitalization we reduce our estimate of the average of the per mile valuation of the roads of the South from \$52,362.00 per mile to \$44,911.00 per mile, as the average net capitalization of the railways of the South.

As stated above, no attempt has ever been made to ascertain the physical value of the railways in those states, but similar valuations have been made in quite a number of states, notably in the States of Washington and Minnesota; and, as the result of the expert valuation made in those states by representatives of

the state government, we find (making no allowance whatever for the franchise values of the property as a going concern) the physical valuation to be as follows: Washington (1905), \$58,288.00 per mile; Minnesota (1907), \$47,454.00 per mile.

I take it that the conditions, though different in many respects, yet are not so different as to lead us to believe that the physical values of the railroads in the South are less by any great amount than the average physical value of the railroads in the prairie territory of the Northwest, and this comparison certainly leads to the probable conclusion that the existing capitalization of the railroads in the South is not in excess of their true value by whatever standard that value may be ascertained.

The conclusions that I draw from the two lines of information which I have sought to bring to your attention is that the present securities of the railroads in the South fairly represent the actual investment of money, and that that fact should receive the wholesome recognition of the people of the South, and the further fact that the expenditure of this capital has resulted in the accumulation of railroad properties that fairly represent in value the capitalization which is dependent upon the roads for a reasonable return.

I am persuaded that if the people of the South become reasonably satisfied of the correctness of these propositions many of the problems that confront the railroad situation in this section will be solved, for when once our people have settled in their minds the belief that the nominal capital invested in railroads in the South represents in truth and in fact a real and substantial investment of money to the amount of such capital, which also has been used in the production of existing

property which represents, on a fair valuation, the amount of its capitalized value, then many of our difficulties will be removed and little, if any, legislation will be adopted in the future which may result in crippling our railroads. I say this because I know the people of the South to be fair-minded and, on any question concerning which they have been informed, there need not be any fear of their acting as the conditions may demand.

And now, coming to the question of what the prospects of the railroads in the South are: From my observation and general knowledge of the southern section of our country, I unhesitatingly express the opinion that there is no section of our country that has a brighter prospect for full development by its railroads than that section lying south of the Ohio and east of the Mississippi Rivers, and extending also westward from the Mississippi River on the northern border of the Gulf of Mexico, provided an energetic, comprehensive, and proper financial support is given to the matter of better farming, thereby diversifying your crops, enriching your lands, utilizing your water power, and, in fact, bringing this vast area of tillable and productive land into and under correct and effective cultivation. We are the most wasteful people in the world with respect to the cultivation of the soil. Thousands upon thousands, and I doubt not, millions upon millions, of acres of land are lying unproductive within the territory which I have mentioned that only need proper cultivation to produce that which brings capital into your agricultural districts, communities, towns, and cities. Mark me, that unless the attention of your people is drawn to these questions in a manner that will convince them of the necessity of producing more

to the acre, competition will become so great from other countries that you will be in danger of losing your prestige and preëminence upon the lines of progress along which the South is most capable of development.

I submit for the consideration of the growers of the principal crop of the South, viz., cotton, if it is not within your power by scientific methods to increase the amount of cotton raised per acre to a considerable extent. But you should not be satisfied with merely being represented before the world as the grower of one article, notwithstanding the common parlance "Cotton is King." You have the best climate on the face of the globe. Your section lies midway between the extremes of cold and heat; you are not in an arid section; you have, as a rule, sufficient rainfall to furnish moisture necessary to the growth of all characters of crops; you are in easy access to transportation to all parts of the world, and with the completion of that undertaking to which our government is committed, viz., the Panama Canal, you will then be at the door of Central America, South America, and many thousands of miles nearer to the Pacific Coast, China, and Japan, than any competing section or territory. Pardon me for giving you a word of warning that you should be up and doing in preparing yourselves to take charge of these markets when they will be opened to you. You should ask your representatives scattered throughout these countries to inform themselves as to their requirements and as to their methods of doing business. Do not deceive yourselves—you cannot change old and established methods in the foreign countries without patient effort, and even then you may never change them. You may have to, and I believe you will, adapt your measures and methods to those

of the foreign country with which you are transacting business.

And now, if you again ask me what are the "Railroad Prospects of the South," my reply is that the future and additional development of the railroads in the South is, to my mind, entirely dependent upon the attitude of the Southern people towards the railroads. Business conditions affecting and surrounding the South are such as invite and demand the further extension of existing roads and the construction of many new lines. The management of the roads now serving this section are fully alive to this situation. They are ready to seek further capital to carry on these improvements, but their experience during the past few years brings home the fact that those who have been in the habit of furnishing money are uncertain as to the attitude of the Southern people towards these investments. In the event that it appears that the well-defined policy of the states of this section is to see to it, as far as legislation is concerned, that every investment in railroad property shall have a fair chance to work out a reasonable, if not a liberal, return upon the investment, then I know that "Railway Prospects" will be very bright for this favored section; but, on the contrary, if it shall appear that the railroad proposition is to be a political issue upon which politicians, or even statesmen, are to run for office, then I know that the managers of your railroad properties will not be able to go into the money markets and secure the funds for a new road, and difficulty will be had in securing funds for proper maintenance and improvement of the existing roads.

It seems to me that recent history has demonstrated that the day is past when the railroad question can be

properly dealt with as a political proposition. In fact, it is altogether an economic proposition and cannot be successfully handled by the politicians, however sincere may be their ultimate purpose. Such attempts have always resulted in disaster to the roads as well as to the community. I do not, however, conceal from myself the fact that all railroads are in some measure monopolies and as such should be subject to the regulating hand of the body politic. In the working out of our system, we have established both for the nation and for most of the states, commissions, whose duty it is to exercise regulating influences to prevent the evils that arise from monopoly; and if, as the years go by, it shall appear that these bodies will be able, with equal hand, to protect all sections from undue discrimination and, at the same time, preserve to the railroads such rates that the revenues shall be remunerative, then I look forward to the early day when railway development in the South shall take steps far in advance of any section of this country.

One more word and I have finished. All of these things I believe will be finally and best accomplished when the people of the South get in the habit of owning their own railroads. Stocks and bonds of these companies can be purchased on the open market to-day at prices which will justify a reasonable return under fair and just governmental regulations, and I do not know any better opportunity for investment by the people of the South than in the securities of their own transportation companies.



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